

S&MM

SALES

MARKETING MANAGEMENT

AN S&MM SPECIAL SECTION
COOPERATIVE ADVERTISING
New fields to conquer
Page 65.

MAY 16, 1983
A BILL PUBLICATION
FIVE DOLLARS

Inside Out

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Olympia girds for the next round

An early marketer of electronic typewriters, Olympia captured about 20% of the \$1 billion market. President Leon Harris is fighting to defend that share against growing competition from the likes of IBM and Xerox, plus price cuts by Japanese companies entering the market in earnest. Story on page 37.

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What's coming up

Cookie wars. Nabisco and Keebler desperately try to hold market share as Frito-Lay and Procter & Gamble invade the dwindling \$2.1 billion packaged-cookie market. Expect a price war and much bigger advertising budgets. June 6.

An S&MM Special Section: Sales Leads. Companies are using a variety of new techniques, many utilizing computers, to qualify and pursue leads. S&MM explores the state of the art. June 6.

Re-greening of Walgreens. One of the oldest drug store chains around, Walgreens is at the top of its category because it doesn't believe in "over-expansion." July 4.

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tions, says northeastern companies are rehiring management executives faster than those in the Midwest. Sunbelt companies, many of which were forced to lay off employees for the first time, are following the cautious strategy of the mid-western companies. **S&MM**

NEW PRODUCTS

If there's a song in your heart . . .

Japanese marketers of consumer electronics are wondering if the U.S. market is ready for karaoke.

Karaoke (it translates as empty orchestra and is pronounced "kar-ah-oh-key") is designed to help amateur crooners sound like Frank Sinatra or Barbra Streisand. The system, which provides singers with taped musical accompaniment, generated retail sales of \$600 million last year in Japan.

Clarion, the largest Japanese manufacturer of the system, already is taking orders from U.S. dealers. Meanwhile, Jayson Electronics Systems of Chicago is selling its portable in-home Celebrity karaoke system for \$595 and a more powerful commercial unit for \$3,150.

The Celebrity includes an 8-track player with pre-recorded background tapes, a cassette recorder for taping performances, microphones, echo control, speakers, and a song book. A company spokesperson insists that echo control, if properly adjusted, can make a "shower" singer sound like a star.

Karaoke was introduced into Japan six years ago and now is common in Tokyo discos and

S&MM SALESGRAPH

Scrambled marketing comes to computers

Marketers of personal computers (PCs) are latching on to a variety of distribution channels in the hope of tapping the secret to mass sales. Because, in most cases, low prices rule out the use of their own direct sales forces, marketers are using computer retailers, mass merchandisers, original equipment manufacturers, and even mail order.

Retail outlets dominate currently, accounting for 60% of sales to small businesses and professionals, 50% to the home, studies by International Data Corp. (IDC) show. Whether they'll continue to do so is a hot topic in the industry. Aaron Goldberg, IDC's senior research manager, small systems, thinks they'll continue in that role "because they're beginning to put hardware, software, service, and training together."

In the long range, however, analyst Jonathan Art, of the Gartner Group, thinks "they're insufficient to accommodate the number of vendors [around 200] or unit volumes expected in the market." He says shipments of

Where PCs are being bought

Channel	Fortune 100	Small Business/ Professional	Home	Total
Mass merchandiser	0%	0%	4%	1%
Computer retailer	30	60	50	51
Direct sales	90	12	7	12
Mail order	0	10	36	15
Wholesale/distributor	10	10	4	9
OEM/system house	0	8	0	6
Other	0	2	3	10

Note: Details won't add to 100% due to multiple responses.
Source: International Data Corp.

microcomputers costing more than \$1,000 will almost triple between 1982 and 1984, from 1.6 million units to 4.3 million. "Most retailers are only geared to support generic, horizontal applications such as word processing," he adds, "and can't meet the needs of specific vertical markets."

Advertising will become a more critical part of sales strategy. "A marketer who doesn't advertise enough to build a strong brand image shouldn't even consider going retail," says Mirek J. Stevenson, chairman, Quantum Science Corp., "because store personnel lack the time to promote a particular brand." But marketers are advertising. Example: TV spending by computer companies skyrocketed 245% to \$77.8 million last year, although IBM accounted for 44% of the total.

People on the move: A sensitive growth barometer

People who voted with their feet in the last half of the 1970s as to where they wanted to live picked Florida, Texas, and Washington as favorite locales, and New York, Illinois, and Ohio as their least popular choices. Those are the states with the biggest pluses and minuses for net migration (the difference between in-migration and out-migration), a new Census Bureau report reveals. As birth rates fall, mobili-

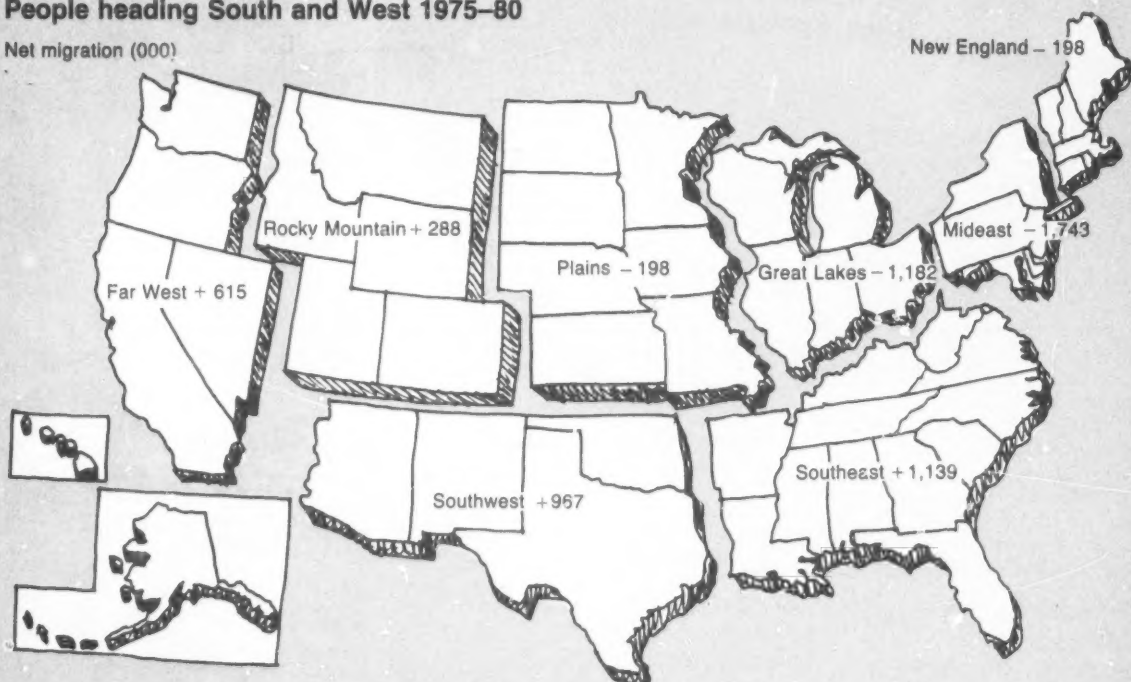
ty becomes an important factor in market growth.

A sharp polarization in regional mobility is underscored by the fact that all the states in the Northeast and Midwest but three (Maine, New Hampshire, and Vermont) suffered a net outflow of persons five years and older, while every state in the South and West but three (Mississippi, Alaska, and Hawaii) enjoyed a net inflow.

—TCT

People heading South and West 1975-80

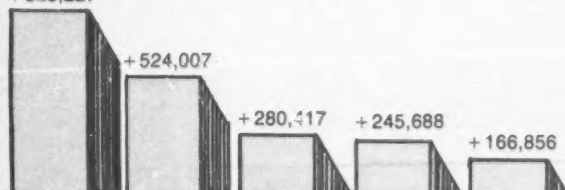
Net migration (000)



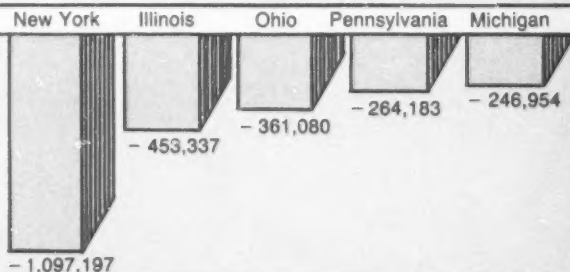
Most popular ...

Net migration

+823,227



... and least popular



Source: Census Bureau, *State of Residence in 1975 by State of Residence in 1980*, PC80-S1-9.
 *Sales & Marketing Management.

S&MM

SALES & MARKETING MANAGEMENT

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S&MM SPECIAL SECTION
SALES LEADS
Orders from the chaos
Page 59.

On with the \$2.1 billion cookie war



As the top players in the \$2.1 billion packaged-cookie market sit placidly on their shares (1.), sounds of combat rumble overhead. Seeing a category underpromoted and low on quality products, PepsiCo's Frito-Lay subsidiary and Procter & Gamble jumped in with competitively priced cookies meant to appeal to higher-priced tastes. An onslaught of ads and discounts from the newcomers has the established cookie marketers building huge promotional defense budgets to hold their ground in the market. Page 37.

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Long-stalled marketers of highway construction equipment see relief in nickels by the millions. Page 16.

Is basing starting salaries for female insurance salespeople on their prior compensation fair? They say no. Page 17.

Barq's Root Beer, a regional brand making strides in the Gulf Coast states, bids for the big time. Page 22.

The IRS targets door-to-door

salespeople for special scrutiny. Page 22.

Night of the Long Knives at Warner Amex. It jettisons its centralized marketing strategy—and the people who ran it. But why? Page 28.

When hiring new salespeople, look for two special qualities, says veteran sales trainer Sheldon Feinman. Page 52.

Producers of movies and records vs. retailers who sell and rent their products: What the battle means to you. Page 106.

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What's coming up

Auto industry. Car makers are revamping their inventory controls, production methods, and other ways of doing business. The result: a revolution for their suppliers, too. July 4.

An S&MM Special Section: Sales Meetings. Why do you hold meetings? To train? Inform? Reward? Motivate? The only way to meet your objective is to identify it first. Case histories show how it's done. July 4.

Re-greening of Walgreen. One of the oldest drug store chains in business, Walgreen is at the top of its category because it isn't afraid of overexpansion. July 4.

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Computers hum merrily along—but not the people who operate them. And that's a marketing opportunity.
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As the rich get richer, so do bankers who can snare them with products based on sound marketing principles.

AN S&MM SPECIAL SECTION

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S&MM's cover photo by Joe Bevilaqua

Sleepy cookie marketers sound the alarm as Frito-Lay and P&G invade a market that seemed to be topping out. Consumers are being barraged by new products, ads, and promotions while massive sales forces wage a battle for shelf space.

On with the \$2.1 billion cookie war



By AL URBANSKI
Associate Editor

There's a cookie conflict blazing in Kansas City, and if it spreads, which seems likely, the normally placid industry may never be the same. As in many a thriller, the first shot was fired by a charming old lady, Grandma's Cookies, which nudged its way into test market a year ago and reportedly captured a 20% share. Hardly a lone operative, Grandma's is actually a strike force of Frito-Lay, the salty snack unit of warlord PepsiCo. Thus its beachhead is being stocked by a corps of Frito-Lay route salespeople as often as twice a week, much to the dismay of occupying forces Nabisco, Keebler, and Sunshine.

But the intrigue doesn't end there. Last January, as Grandma's infiltrated other markets such as Phoenix, Tulsa, and Atlanta, the cookie shelves in Kansas City were hit by a sur-

prise attack. Procter & Gamble (P&G), which had never sold a packaged cookie in its history, stormed into town with its Duncan Hines brand and turned the battle for the \$2.1 billion market into all-out war. Forward observers say the barrage of new products, ads, coupons, and discounts could go on for two years.

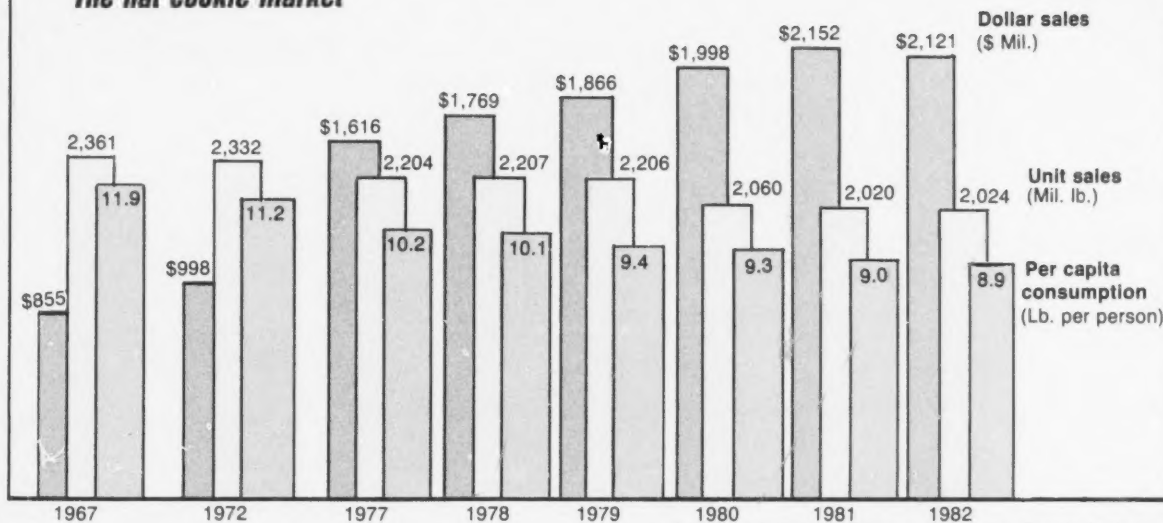
It will be an expensive campaign. Last year, the top three cookie marketers (Nabisco Brands, Keebler, and Sunshine Biscuit) spent a combined total of \$15 million for cookie ads, says Leading National Advertisers. That, sniffed Frito-Lay president D. Wayne Calloway at a recent stock analysts' meeting, is about as much as his company spends on one snack brand, Doritos. Market leader Nabisco's 1982 ad budget (cookies only) was \$8 million, a mere 1% of its estimated \$800 million cookie sales. Procter & Gamble, meanwhile, will spend 40% of sales to pro-

mote its five-flavor Duncan Hines line, predicts Bear, Stearns analyst Clinton Mayer, and trade sources indicate that Frito-Lay's promotional budget for Grandma's hovers around the \$70 million mark.

Cookie marketers and analysts agree that the category was underpromoted and ready to be exploited by the likes of P&G and Frito-Lay, which bought the Beaverton, OR, Grandma's Cookies operation in 1980. "They looked around and thought they could conquer a sleeping giant," says one analyst.

The Rip Van Winkles of the cookie market are beginning to stir, however. Grandma's Kansas City debut in May of last year was enough to jolt Sunshine into action. Last August, the American Brands division hired New York City ad agency Sherwood & Schneider, a unit of Della Femina, Travisano & Partners, to direct its first major national TV campaign. New

The flat cookie market



Source: U.S. Dept. of Commerce; Business Trends Analysts.

spots for Hydrox cookies and Cheez-It crackers have already burst upon the West Coast, one of Sunshine's strongest markets. The commercials eventually will go nationwide, bringing Sunshine's cookie and cracker budget to \$30 million. It spent only \$360,000 on cookie ads in 1982.

Others are also falling into step. No. 2 Keebler, the Elmhurst, IL, subsidiary of Britain's United Biscuit, recently kicked off a national sweepstakes for a grand prize of \$25,000 and began moving its products into the underdeveloped western market. Nabisco will add \$30 million to its over-

all ad budget this year, says Bear, Stearns's Mayer, the bulk of the increase going to protect its commanding 35% share of the cookie market. "We're going with heavier couponing and increased newspaper ads," says Nabisco's assistant director of national accounts Garry Kiely. "We've matched the competition and are doing all we can do to stay with them."

The challenge from Frito-Lay and P&G, the Cincinnati packaged-goods leviathan, comes at a bad time for the cookie establishment. While unit sales of crackers have increased from 1.6 billion lb. in 1972 to 2.2 billion lb. in 1982,

packaged-cookie sales dropped from 2.3 billion lb. to 2.0 billion lb. in the same period, says the U.S. Commerce Dept. Charles Ritchie of Business Trends Analysts, a Commack, NY, market research company, cites three reasons for the drop: (1) a decline in the number of 5 to 13 year olds, key consumers of cookies selling in the range of \$1.19-\$1.89 for a 12-oz. package; (2) increased consumer nutritional concerns; and (3) competition from fresh-baked chains such as David's Cookies (S&MM, Aug. 16, 1982). Ritchie doesn't expect the trend to reverse until 1992, when more youngsters will abound.

The collage features several promotional materials:

- Nabisco:** A heart-shaped coupon for "OREO" and "NABISCO'S BEST-LOVED COOKIES" with a "SAVE 75¢" offer.
- Sunshine:** A coupon for "SUNSHINE SANDWICH COOKIES" with a "SAVE YOU BREAD" offer.
- Grandma's:** A coupon for "Grandma's" cookies with a "Save a bundle on a batch of new, fresher-tasting cookies" offer.
- Duncan Hines:** A coupon for "Duncan Hines Did It. Presenting ready-made chocolate chip cookies that taste homemade." with a "Try 'em and save 30¢" offer.
- Other brands:** Various smaller coupons for brands like "Chip-A-Roo" and "Nabisco's Best-Loved Cookies" are also visible.

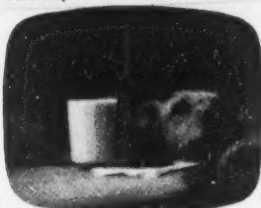
Cookie ads and coupons are now a staple in newspapers in Kansas City, battleground of the cookie war.

To make things worse, profit margins for cookie marketers will drop. This is due not only to increased promotional spending but to the proliferation of a discounting war already begun on the battlefield of Kansas City, thus far Duncan Hines's only test market.

P&G barraged Kansas City consumers with coupons for its Duncan Hines Chocolate Chip cookies (besides plain, the Chocolate Chip line also includes mint, butterscotch, almond fudge, and peanut butter), which it priced at \$1.59 per 12-oz. bag, 30¢ below its original suggested retail. Frito-Lay had already been couponing, and others followed suit, offering coupons worth 10¢-35¢, says Terry Ryan, buyer for Safeway's 79-store operation in Kansas City, which offers double coupons. Jack Wyss, general ad manager for the Kansas City *Times* and *Star*, says he has seen a "substantial increase" in freestanding cookie ads and cookie features in supermarket ads. "Everybody's footbaling the price around," he says.

No company is more aggressive about price than Sunshine, which has begun selling its nine-item cookie line in 12-oz.

VO: Everybody has a favorite cookie,



like a delicious Hydrox Cookie from Sunshine.



you'll do almost anything to get it.



and it's made with real chocolate. . .

Sunshine returns to TV with a \$30 million advertising budget.

boxes for 99¢. "Some cookies were reaching the \$2 mark," says Sunshine's vice president of marketing, Jay Neidenberg. "So we relaunched our pricing concept to get under a dollar. In some markets we've offered deals that lowered the price to 69¢ and our displays sold right down."

Cookie marketers and food industry analysts are following the action closely. One anxious observer is Barbara Horlbeck, marketing manager for Pepperidge Farm's new line of Star Wars cookies. Selling in 8-oz. boxes for \$1.39 and aimed at the juvenile market, the product is a departure for the Norwalk, CT, unit of Campbell Soup, which markets a premium-priced line of adult cookies in 5.5-oz. bags. Horlbeck says more Pepperidge Farm varieties could be forthcoming if the cookies shaped like Star Wars characters do well, but admits that the new competitive environment in the cookie market is "incredible for a category that's been decreasing in ton-

nage." Adds analyst Paul Landini of Northern Trust, Chicago: "You've got very aggressive competition in a small unit growth area, and that's very dangerous."

Who is most endangered? Who will be the winners and losers? That depends on whom one talks to. "The new entries won't bother us," says James Green, general sales manager for Archway Cookies, Battle Creek, MI, which he claims is the No. 4 producer with 9% of the market and sales topping \$200 million. "They'll bother Nabisco, Keebler, and Sunshine."

Nabisco will hold

Not so, says Sunshine's Neidenberg. "Shelf-space reductions to make room for new brands will be at the expense of the small, regional companies," he feels. "We've really been hurt the least."

A neutral opinion is offered by Merrill Lynch analyst William Maguire, who says that Keebler and Sunshine will be squeezed the most, while Nabisco will hold steady. Bear, Stearns's Mayer agrees. Though he feels that Nabisco's short-term outlook is cloudy, Mayer says the company's extensive test marketing and tried-and-true distribution will hold the line with Frito-Lay and P&G. "Nabisco also has the capability to make a quality product but felt it didn't have to until now," he says.

Price and product quality are key factors in the cookie battle royale. The two new powerful entries appear to be responding to the rising popularity of fresh-baked cookies sold over the counter. Frito-Lay touts the fact that its Grandma's cookies—ranging from chocolate chip to fruit filled—are soft and chewy, as opposed to hard and crunchy like Nabisco's Chips Ahoy. Duncan Hines cookies, brags P&G, are crunchy on the



Grandma's begins a national rollout.

outside, chewy on the inside. Both new lines are priced competitively with Chips Ahoy, which sells for between \$1.49 and \$1.69 for a 13-oz. bag. P&G's biggest coup, says company spokeswoman Carol Boyd, is putting such a "home-made" cookie out at a mass market price, and with a shelf life of "about six months." It is not known whether Nabisco will follow with a soft cookie of its own, but the company has reformulated Chips Ahoy with more chocolate, and the watch has been posted for a rollout of new products.

Though Frito-Lay is beginning a national rollout of Grandma's 25 varieties and P&G is still grooming Duncan Hines in Kansas City, observers agree that both are in the cookie market to stay. The Dallas snack marketer claims 20% shares for Grandma's in test markets, but Sunshine's Neidenberg asserts that 10% is more like it. "It doesn't matter," says one analyst. "PepsiCo increases any market it goes into." And to say that P&G always steals market share with new category introductions is "axiomatic," says Merrill Lynch analyst Allan Kaplan.

Some objective observers of the cookie market give P&G the edge in product quality, while Frito-Lay is lauded for superior distribution through its 10,000-strong route sales

force, said to preen grocery shelves as many as two to three times a week. Nabisco also delivers store-door, though its 3,000 salespeople are less of a supermarket fixture, and the company is said to be testing distribution through grocery chain warehouses in Cincinnati. P&G uses warehousing only, as does Sunshine, which says the method is a plus. Sunshine's Neidenberg says warehousing is much cheaper for a cookie company than store-door delivery, enabling the grocer to collect a higher margin. But this does not necessarily curry favor with grocers. "We'd prefer it if everyone went to store-door delivery," says Safeway buyer Ryan, "and we'll pay the markup for it. Warehousing takes up too much of our labor."

Most observers agree that the big battles will be fought at the shelf. "Price, promotion, couponing, and delivery are the means," says Northern Trust's Landini. "The end is shelf space."

If shelf space is any indication of who will feel the shake-out in the cookie crunch, readings from Kansas City show that everyone loses a little. With no additional space allotted to cookies, Safeway's Ryan says that some was taken away from each brand to make room for the two newcomers. "P&G came in asking for 30% of the

shelf, but we gave them 7.5%," he says, adding that Safeway gave Frito-Lay 10% at first but has since increased Grandma's piece of the shelf to 15%.

While cookie marketers are winning more end-aisle displays with price promotions, they are also trying to make their products stand out in the main aisles with special displays. P&G is literally grabbing and fencing in its shelf space with 4-ft.-wide plastic display inserts with Duncan Hines signage at the top that are taped or glued onto the main-aisle shelves. The display allows salespeople to stack the colorful foil packages vertically, unlike other bagged cookies, showing off the full front panel.

Some friendly foes

James Klein, a buyer for the 35-store Milgram chain in Kansas City, applauds P&G's innovation. "It is like a cigarette rack and stands out in the aisle," he says. P&G salespeople mount the displays themselves, but at first they had to enlist the help of some friendly salespeople from competitor Sunshine, says Safeway's Ryan. "The P&G people admitted they knew zero about cookies," he recalls.

General Mills admitted the same, claiming it is staying out of the cookie free-for-all despite reports it would introduce a Betty Crocker line. "You've got P&G, Nabisco, and PepsiCo in the market," says company spokesman Dean Belbas. "Why the hell would we want to get into it?"

Merrill Lynch's Maguire says the cookie craze will stabilize in two to three years, but ventures no guess as to how the cookie shelves will look then. It seems the only sure winners in this war will be consumers, advertising agencies, and media, who will benefit from low cookie prices and zooming ad budgets. Says Northern Trust's Landini: "They're going to advertise 'til you can't stand it anymore, and coupon 'til your feet fall off."



P&G grabs 4-ft. of space with plastic inserts glued to shelf.

S&MM

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Union, Giant, and Safeway stores. In the first A&P used, one in the Baltimore-Washington area, the section brought in \$3,000 in the first week.

Hood says, "We'll be going full force with both A&P and Publix Super Markets" this month. "We estimate that by year-end we'll be setting up one section per day."

WD-40 tries sight-of-hand

For years, women have watched their husbands attack squeaky hinges and stuck locks with a few squirts of solvent WD-40. Now the company, based in San Diego, is trying to convince women that they can use the product to end woes encountered in the kitchen and bathroom. Says Lou Repaci, manager of marketing services, "We're trying to position the product to one that is found under the kitchen sink as well as in the garage and the workshop. It's a process of education."

Part of the education is the company's subtly revamped "Easy Fix It Guide." In the



WD-40's guide points out that the product has moved indoors.

S&MM SALESGRAPH

Home is where the hi-tech will be

Sparked by hi-tech product innovations, sales of home entertainment equipment will soar 29% in the 1981-85 period, then leap another 70% in the 1985-95 period, a new study by Predicasts, a Cleveland market research company, shows. By the mid-1990s, consumers will be spending almost \$30 billion a year on audio and video gear vs. \$13.5 billion in 1981.

Sales of audio entertainment hardware will go up by 144% to \$11.4 billion in the 1981-95 forecast period; video sales will more than double to \$18.0 billion. A new category, which Predicasts calls hybrid electronic entertainment (components that combine audio and video), will increase from \$40 million to \$500 million, a 1,150% gain.

In terms of units, sales may post even flashier growth rates. Neal DiGeronimo, Predicasts's manager of hi-tech research, explains that prices, overall, are expected to show a deflationary trend because of technological improvements, hence many more units will be sold.

One popular product of recent years, video-game players, won't be around in the early 1990s. They'll be replaced by home computers that play games—and do a lot more besides, DiGeronimo predicts.

Home entertainment market

Home Entertainment Sales (\$ Mil.)	% Projected Annual Growth				
	1981	1985	1995	1981-85	1985-95
Total	\$13,536	\$17,500	\$29,675	6.6%	5.4%
Audio entertainment	4,669	6,160	11,390	7.2	6.3
Radio	853	1,400	2,250	13.2	4.9
Audio reproduction	3,816	4,760	9,140	5.7	6.7
Video entertainment	8,827	11,180	17,985	6.1	4.9
Television	6,992	8,825	13,105	6.0	4.0
Reproduced video	1,255	1,565	2,510	5.7	4.8
Videocassette recorders	1,170	1,400	2,250	4.6	4.9
Videodiscs	85	165	260	18.0	4.7
Intelligent video	580	790	2,370	8.0	11.6
Home computers	205	612	2,300	31.4	14.2
Hybrid electronic entertainment	40	160	500	41.4	12.1

Note: Current dollars.

Source: Predicasts, *Home Entertainment of the Future*, Study E78.

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After creating a mass market for portable computers almost overnight, Adam Osborne finds himself beset by a swarm of competitive clones. Shedding the entrepreneurial role, he tries a mix of distribution strategies to stay in first place.

Osborne bytes the distribution bullet

By THAYER C. TAYLOR
Senior Editor/Management Sciences

Management style and marketing strategy can change as fast as technology in the booming three-year-old portable computer market. Thus entrepreneur Adam Osborne, who parlayed the portable concept into a marketing triumph that sent sales of Osborne Computer Co. soaring to \$100 million in 1982 from \$10 million in 1981, finds himself confronting the price of success: an onrush of competitors. As Esther Dyson, president, Rosen Research, New York City, and editor of *RE-Lease 1.0* newsletter, points out "Competitors have caught on to Osborne's secret, low price and bundled software with portability as a feature."

Today's portables are "where personal computers were two years ago—on the eve of explosive growth," says Chris Christiansen, senior analyst, Yankee Group, a Boston market research company. He predicts shipments will leap 264% this year to 509,000 from 138,000 last year and only 8,000 in 1981.

To protect his front-running position (estimated 80%-90% market share), Adam Osborne is taking the following steps:

◆ Overhauling the management structure of his Hayward, CA, company, "replacing the entrepreneurial style with professional managers who are marketing-driven." Early this



Adam Osborne begat Executive 1 and, with it, a new sales strategy.

year he went outside the industry and picked Robert Jaunich II, Consolidated Foods president, to head up his company as president and chief executive officer.

◆ Refining his distribution strategy, supplementing computer stores with a batch of alternative channels. The most significant move: signing on Harris Corp.'s computer systems division to act as national

distributor in cracking the Fortune 1000 market.

◆ Building upon his single product, Osborne 1, with two new models designed to (1) attract prospects looking for advanced equipment and (2) benefit from the success of IBM's personal computer.

Portable computers were around before Osborne got into the business two years ago, but he was the first who knew how

Two scenarios for portable computers

	1981	1982	1983	1984	1985	1986	1987
Shipments (000)							
Dataquest	8	127	245	460	780	1,210	1,760
Yankee Group	8	138	509	1,100	1,800	2,900	N.A.
Revenue (\$ Mil.)							
Dataquest	\$ 14.4	\$ 234.2	\$ 389.6	\$ 667	\$ 1,068	\$ 1,633	\$ 2,358
Yankee Group	\$ 14.4	\$ 260.0	\$ 870.0	\$ 1,800	\$ 2,200	\$ 2,600	N.A.

N.A.—Not available.

Note: Differences between the two sources partly based on broader definition of the market by Yankee Group as well as on different estimates as to when individual entrants will hit full production.

Sources: Dataquest, Small Computer Industry Services; Yankee Group.

to sell them in mass quantities.* His strategem: low price, \$1,795, which included \$1,500 of free software, and mass distribution. Osborne himself notes: "The Osborne 1 had no technology of consequence. We made the purchasing decision convenient by bundling hardware and needed software in one price."

Significantly, he has created a new environment for computer makers. "For the first time, vendors have markets equal to population," says Jack Karp, director of personal computer industry service at the Gartner

**The term "portable computer," as used by the industry, embraces three categories: (1) hand-held computers, which are self-descriptive; (2) portable, which have a small display screen, limited memory, and weigh between 10 and 20 lb.; and (3) transportable, which have bigger screens and memories and weigh more than 20 lb. Osborne falls into the third group*

Group, a Stamford, CT, research company. "Until recently, they sold to key people in the data-processing department. Now, every office desk is a sales target."

While Adam Osborne is the latest vintage of Silicon Valley's perennial crop of entrepreneurs, unlike most of them he has loosened his grip at an early stage. "None of us were professional managers," explains Osborne, who moved up to chairman with Jaunich's arrival. "We realized our days as entrepreneurs were over if we wanted the company to maintain its awesome growth rate. We needed someone with the capabilities required to harness something growing as fast as we were and keep it growing."

Jaunich moved swiftly to decentralize the company's management structure. Georgette Psaris, vice president of marketing, was moved into a newly created slot as vice president, strategic planning. Replacing her as marketing vice president is Joseph Roebuck, lured

from Apple Computer, where he was marketing director. Fred Brown was elevated from director of sales to vice president of sales, and David Lorenzen, a consultant used in the past, came on board as director of marketing services with responsibility for dealer-support programs.

Army of 900 resellers

From the start, mass distribution was a key to Osborne's success. Some 750 retail outlets stock the company's portables, including the ComputerLand chain, Xerox's retail stores, Sears, Roebuck's business centers, and mass merchandisers such as Macy's. Recently, 150 office-equipment dealers with experience in selling the most advanced copiers were added to reach small- and medium-sized businesses.

As competition heats up, sales vice president Brown is refining what he says is "the distribution expertise we have that others lack." Proud of the Harris deal which he negotiat-

Fighting off the start-ups and the upstarts

Although it is expected to remain the front-runner in portable computers this year, Osborne Computer will see its market share slip from the 80% or 90% that industry analysts credit it with in 1982. The reason is that a floodtide of competing products has been unleashed both by established companies and "start-ups" just getting into the business.

Heading the list of rivals is the Kaypro Div. of Linear Systems, Solano Beach, CA, which began shipping its Kaypro 10 (\$2,795) last month and is expected to hold onto the No. 2 slot this year. Marketing vice president David Kay expects to increase production to 10,000 a month by September for the model, which scores an industry first with hard disc drives. He also expects to ship 120,000 earlier Kaypro 1 and 4 models this year.

To meet those goals, Kay is banking on an expanded dealer base, deeper penetration of vertical markets, and corporate sales. Retail outlets will be increased to 900 from 750, he says, and systems houses, which sell to vertical markets such as doctors, to 250 from 150.

Three salespeople were hired for a major accounts program to get Kaypro portables into corporate offices. "It takes a long time to cultivate

that business," Kay says, "because they wait for a year after you contact them to make sure you'll stay in business." To entice corporate buyers, he is adding an emulation feature to his machines so they can communicate with host computers. As a further inducement, any employee of a corporation that places a minimum order can buy a machine at \$100 off retail.

Unlike most vendors of portables, Kay shuns such big chains as ComputerLand and concentrates on small local chains of one to three stores. He also bypasses distributors, selling direct to retailers. "It means more work for us," he concedes, "but it keeps our prices below the competition, which is the key to our success, and it brings in more cash flow."

Trouble for Osborne may also come from the following companies:

◆ Compaq Computer, a Houston start-up with large infusions of venture capital and ex-IBMers, will probably give Kaypro the hardest contest for runner-up. Industry analyst Dataquest expects the company to ship 100,000 of its IBM-compatible machines (\$2,995) this year. President Rod Canon says the company will have 400 dealers by this month, six months ahead of schedule. He has his



Osborne sales chief Brown sees his sales rising 150% this year.

ed, he notes that "this is the first time a microprocessor vendor our size has gone with a minicomputer firm of Harris's size, \$1.7 billion." What excites Brown, apart from Harris's own accounts among such corporations, is the division's 70 salespeople and 1,200 support personnel, including systems analysts. "Our move shows where the portables business is going, toward systems," he says.

Karp, of the Gartner Group, thinks the Harris arrangement "is the kind of thing Osborne must do to remain successful. The Fortune 1000 market is a tremendous one where the mainframe and mini vendors are entrenched with their own sales forces. Anyone trying to crack it has to find a strong position."

To protect Osborne's resellers, Harris will handle orders with a 50-unit minimum. He expects Harris to sell between 20,000 and 30,000 machines this year. Brown has set up a major account program to help

retailers and dealers make corporate sales. The program is organized on a regional basis to minimize conflicts with Harris's nationally oriented thrust.

Sales in the newsroom

Specialized vertical markets are another sales target. United Press International (UPI), the news service, will sell Osborne portables to its 1,000 subscriber newspapers as a personal workstation. UPI has a sales force in place, which was created to sell telecopiers. Brown is exploring other distribution options, such as independent sales organizations. He is also dickering with airlines and hotel chains to install facilities that would enable customers to use their Osbornes while travelling.

No matter how many strings he adds to his distribution bow, however, Brown insists that Osborne will never sell direct to end users. "Unlike IBM and Apple, we won't make end runs around our dealers," he vows. "You can't have a loyal dealer if

own compatibility twist: only IBM-authorized dealers are being signed up, a move that will give him more walk-in traffic but may leave him exposed to any adverse move IBM makes against portables if they begin to eat into sales of IBM's own personal computer.

♦ TeleVideo Systems, Sunnyvale, CA, will field its TeleTotal I (\$1,499) portable this fall, joining the company's desktop and multi-user machines. TeleVideo is the first company with products in all three modes.

♦ Gavilan Computer, Campbell, CA, markets a pricey (\$3,995) mobile computer that is very lightweight (9 lb.) and features a touch panel. For now, founder Manny Fernandez gets his distribution solely through systems houses which sell to vertical markets.

♦ Seequa Computer Corp., an Annapolis, MD, start-up, offers an IBM-compatible whose \$1,995 price makes Gerry Guyod, publisher of *Computer Marketing Newsletter*, call it "the sleeper to watch."

Of course, the market's low prices and rapid volume buildup are made to order for Japanese competitors. Sharp Electronics, Paramus, NJ, whose PC-5000 (\$2,500) attracted considerable

attention at the recent National Computer Conference, will spearhead an influx of Japanese contenders. Sharp will mount a strong TV campaign.



Kaypro's David Kay maps anti-Osborne plans.

you're going to compete with him."

The significance of Brown's distribution refinements is underscored by Rosen Research's Dyson. "A slew of price cuts is making the portables producers understand, like the desktop producers before them, the need for product differentiation," she says. "One way to achieve it is through choice of distribution channel. Bundled software is no longer enough."

\$3.5 million for ads

To reinforce its product differentiation, Osborne last year spent an estimated \$3.5 million on advertising. This included \$1.5 million in consumer magazines and \$500,000 on spot TV, according to Leading National Advertisers, Inc., and \$1.5 million in business publications.

Osborne's sales organization is being reshaped in line with the new distribution strategies. Brown hopes to add 30 or 40 people to his 8-person sales force in a year's time to permit specialized selling. Sales representatives will be switched from being generalists selling across the board, to specialists, concentrating on either retail or nonretail accounts.

"Retailers have different needs than dealers, for example, because they rely on walk-in traffic," Brown explains. "Thus they need help on such things as point-of-sale displays to stimulate the guy who comes in off the street. Dealers call on purchasing and data-processing departments and need advice on direct mail campaigns."

Feeling the heat from competitors offering cheaper, fancier machines than its single model, Osborne is broadening its product line. An Executive 1 was unveiled recently and an Executive 2 promised for late summer, each with more storage capacity and larger display screens than Osborne 1.

The Executive 1, Brown says, is aimed at meeting "the marketplace's No. 1 issue, communications." The portable can serve as a terminal to commu-

nicate with a mainframe, enabling users to work with larger data bases and tackle more complicated chores. The \$2,495 price tag includes, according to Adam Osborne, "\$2,000 worth of software, embracing word processing, an electronic spread sheet, and data base management, the three applications most in demand."

However, at least one knowledgeable observer isn't impressed. "The new machine is about a year too late," says Patricia B. Seybold, editor-in-chief of *The Seybold Report on Professional Computing*. "I'm sure it will sell, but it's only a me-too entry into a world Adam Osborne pioneered. You expect more from the company that started the transportable craze."

Executive 2, toting a \$3,195 price tag, will be promoted as compatible with IBM's hot-selling personal computer (PC). This tack reflects another Osborne strategem. As Brown explains: "Rather than re-invent a technological wheel, we make our machines compatible with existing standards. Since it appears that IBM's PC will become a de facto industry standard, it makes sense to go in that direction."

But several rivals have beaten Osborne to the draw with their own IBM clones, some with lower price tags. Unless Adam Osborne realizes that something more than imitation is required to stay on top, he may discover that market leadership is as transportable as the computers he pioneered. **ARM**



"MR. MILLER, EVERYONE HAS A PURPOSE IN THIS UNIVERSE."

SIGNIFICANT TRENDS

More women and minorities in sales

	Total		Whites		Blacks		Hispanics	
	1980	% Gain 1970-80	1980	% Gain 1970-80	1980	% Gain 1970-80	1980	% Gain 1970-1980
Male	1,070,206	8.4%	1,007,058	3.8%	23,534	100.1%	29,249	77.9%
Female	186,971	133.6	167,165	121.2	8,440	146.8	7,901	181.2
Total	1,257,177	17.8	1,174,223	12.3	31,974	110.6	37,150	93.0

Note: Aggregate for mining, manufacturing, and wholesale trade. Totals do not include Asiatics and other smaller categories.

Sources: S&MM calculations; Census Bureau, 1980 Cen-

sus: Detailed Occupation and Years of School Completed by Age, for the Civilian Labor Force by Sex, Race, and Spanish Origin, PC80-S1-8; 1970 Census: Occupational Characteristics, PC(2)-7A.

^cSales & Marketing Management.

Women and minorities get into selling

Jobs as salespeople became popular—dramatically so—among women and minorities in the 1970s, a new Census Bureau report shows. This is a hopeful augury for sales executives. In the years ahead, when the 18 to 24-year-old age group, the reservoir from which sales trainees are drawn, shrinks as a result of the reduced birth rate of recent years, executives will be hard put to find recruits.

An S&MM analysis of the Census Bureau's first 1980 Census report on occupations reveals that the number of female salespeople in the combined mining, manufacturing, and wholesale-trade industries was up decidedly (as was the case in such categories as real estate, insurance, and services). Mining-manufacturing-wholesale trade's increase was 134%, three times the gain reported for women in all occupations. In sharp contrast, gains by male salespeople in that same employment sector lagged total occupational gains, 8% vs. 21%.

Also noteworthy is that the women's gains cut across racial and ethnic lines. The number of white female salespeople increased by 121%; blacks, 147%, and Hispanics, 181%.

The data show that the sales profession did itself proud in the last decade in attracting more women and minorities. The challenge sales executives now face is to ensure that the best of these

newest recruits get equal opportunity at managerial positions as they become available.

For the Sunbelt, a hi-tech spurt

It's become chic in the Northeast to crow over the vicissitudes visited upon the Sunbelt by the sharp decline in energy prices. The latest example: an article, "Frost over the Sunbelt," in the June issue of *American Demographics* magazine by two members of Rutgers Univ.'s Center for Urban Policy Research. But their obituary may prove to be, as in Mark Twain's case, somewhat exaggerated.

The reason: the decision by Microelectronics and Computer Corp. (MCC) to pick the Sunbelt's Austin, TX, as the site for its headquarters (and the special links it will have with Texas Agricultural & Mechanical Univ. [A&M] and the Univ. of Texas). A unique partnership of 11 computer and semiconductor companies, MCC was created to do research in advanced computer architecture and software and other electronic areas, this in response to the threatening challenge by "Japan, Inc." When it is operational, MCC will have 300 to 400 scientists and a budget of \$50-\$100 million.

When MCC is in place, Austin will become a magnet for "the best and brightest" scientific talent, an infusion that, in time, will generate the kind of entrepreneurial activity that made Silicon Valley in California and Route 128 in Massachusetts into hi-tech meccas.